

LOUISIANA PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN
STATE OF LOUISIANA



FINANCIAL STATEMENT AUDIT
ISSUED JULY 6, 2005

**LEGISLATIVE AUDITOR
1600 NORTH THIRD STREET
POST OFFICE BOX 94397
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STEVE J. THERIOT, CPA

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Under the provisions of state law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by state law. A copy of this report has been made available for public inspection at the Baton Rouge office of the Legislative Auditor.

This document is produced by the Legislative Auditor, State of Louisiana, Post Office Box 94397, Baton Rouge, Louisiana 70804-9397 in accordance with Louisiana Revised Statute 24:513. Six copies of this public document were produced at an approximate cost of \$14.58. This material was produced in accordance with the standards for state agencies established pursuant to R.S. 43:31. This report is available on the Legislative Auditor's Web site at www.lla.state.la.us. When contacting the office, you may refer to Agency ID No. 5106 or Report ID No. 05301003 for additional information.

In compliance with the Americans With Disabilities Act, if you need special assistance relative to this document, or any documents of the Legislative Auditor, please contact Wayne "Skip" Irwin, Director of Administration, at 225/339-3800.

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LOUISIANA PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN



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June 21, 2005

Independent Auditor's Report
on the Financial Statements

**LOUISIANA PUBLIC EMPLOYEES
DEFERRED COMPENSATION COMMISSION
LOUISIANA PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN
STATE OF LOUISIANA
Baton Rouge, Louisiana**

We have audited the accompanying statement of net assets available for benefits of the Louisiana Public Employees Deferred Compensation Plan as of December 31, 2004, and the related statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the Louisiana Public Employees Deferred Compensation Plan's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Stable Asset Fund VII, an investment product managed by Great-West Life & Annuity Insurance Company, which represents 46.9% of the total assets of the Louisiana Public Employees Deferred Compensation Plan Pension Trust Fund. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Stable Asset Fund VII, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Stable Asset Fund VII were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinion.

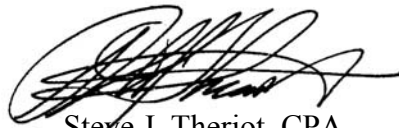
LOUISIANA PUBLIC EMPLOYEES DEFERRED COMPENSATION PLAN

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to previously present fairly, in all material respects, the net assets available for benefits of the Louisiana Public Employees Deferred Compensation Plan as of December 31, 2004, and the changes in net assets available for benefits for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 21, 2005, on our consideration of the Louisiana Public Employees Deferred Compensation Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis on pages 5 through 6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Respectfully submitted,



Steve J. Theriot, CPA
Legislative Auditor

CR:WDD:THC:dl

DEFCOMP04

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Louisiana Public Employees Deferred Compensation Plan's financial performance provides an overview of the Plan's financial activities for the fiscal year ended December 31, 2004. Please read it in conjunction with the Plan's financial statements.

This annual report consists of a series of financial statements. The Statement of Net Assets Available for Plan Benefits and the Statements of Changes in Net Assets Available for Plan Benefits provide information about the activities of the Plan. These statements include all assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Condensed Financial Information:

	As of and for the year ended December 31, 2004	As of and for the year ended December 31, 2003	Percentage Change
Total assets	\$618,843,975	\$542,940,823	13.98%
Total liabilities	<u>(314,775)</u>	<u>(740,761)</u>	(57.51%)
Total net assets	<u>\$618,529,200</u>	<u>\$542,200,062</u>	14.08%
Additions:			
Contributions	\$74,722,475	\$72,765,929	2.69%
Investment income	<u>42,457,671</u>	<u>65,281,604</u>	(34.96%)
Total plan additions	<u>117,180,146</u>	<u>138,047,533</u>	(15.12%)
Deductions:			
Benefit payments	39,879,622	24,545,121	62.47%
Administrative fees	812,499	676,090	20.18%
Other administrative expenses	<u>158,887</u>	<u>225,684</u>	(29.60%)
Total plan deductions	<u>40,851,008</u>	<u>25,446,895</u>	60.53%
Change in plan assets	<u>\$76,329,138</u>	<u>\$112,600,638</u>	

Analysis of balances and transactions of individual funds:

The Plan grew by 13.98% in 2004 as the stock market provided positive returns for a second consecutive year following three difficult years of declines. Participant contributions to the Plan increased by 2.69%. Benefit payments increased by 62.47% to those who retired, severed from employment, or purchased service credit from their pension system.

The passage of the Economic Growth and Tax Relief Reconciliation Act (EGTRRA) in June 2001 has created much opportunity for retirement savings and portability for individuals. In 2003, 148 employees transferred assets from the Plan to their public retirement system to purchase service credits. Following passage of enhanced service credit provisions in 2004, the number of participants who elected to transfer monies grew by 237%, as 352 transferred \$8.8 million to purchase additional pension service credits.

LOUISIANA PUBLIC EMPLOYEES DEFERRED COMPENSATION PLAN

Description of currently known facts:

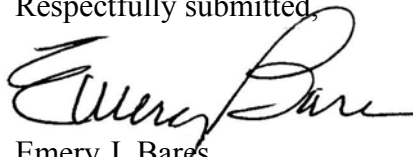
The Commission, in fulfilling its fiduciary responsibilities, continued to monitor the performance of the Plan's core fixed and variable investment options. With assistance by the Plan consultant, the Commission closely followed the SEC Regulatory issues that affected the mutual fund industry, including several of the investment companies that manage Plan investment options.

In March 2004, the Commission decided to close seven existing investment options (American Century International Growth Investors, INVESCO Dynamics Fund, Janus Worldwide Fund, Maxim INVESCO ADR Portfolio, Maxim MFS Small Cap Growth Portfolio, MFS Massachusetts Investors Growth Fund, and the Strong Growth and Income Fund), and added eight new investment options (American Funds: EuroPacific Growth, American Funds: Capital World Growth & Income; American Funds: Washington Mutual; Ariel Appreciation, Artisan Mid-Cap, AIM Real Estate Fund, Oppenheimer Developing Markets, and Touchstone Emerging Growth) to the Plan.

The Commission entered into a contract to provide investment advice services for participants through Advised Assets Group, which is a subsidiary of Great-West Life & Annuity Insurance Company. The advice service, called Reality Investing, began January 2005.

The Commission submitted legislation to provide for greater conformity with any future IRC Section 457 provisions. The legislation was passed by the Louisiana Legislature (HB 1092).

Respectfully submitted,



Emery J. Bares
Chairman

Louisiana Deferred Compensation Commission

**LOUISIANA PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN
STATE OF LOUISIANA**

**Statement of Net Assets Available for Benefits
December 31, 2004**

ASSETS

Cash (note 2)	\$293,525
Investments (note 3)	616,982,152
Cash surrender value of life insurance (note 3)	908,268
Contributions receivable	497,678
Due from plan administrator (note 10)	<u>162,352</u>

TOTAL ASSETS	<u>618,843,975</u>
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LIABILITIES

Accounts payable	<u>314,775</u>
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NET ASSETS AVAILABLE FOR BENEFITS	<u><u>\$618,529,200</u></u>
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The accompanying notes are an integral part of this statement.

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**LOUISIANA PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN
STATE OF LOUISIANA****Statement of Changes in Net Assets Available for Benefits
For the Year Ended December 31, 2004****ADDITIONS**

Contributions	\$74,722,475
Investment income (note 5)	<u>42,457,671</u>
Total additions	<u>117,180,146</u>

DEDUCTIONS

Administrative fees (note 6)	812,499
Benefit payments	39,879,622
Other administrative expenses (note 10)	<u>158,887</u>
Total deductions	<u>40,851,008</u>

NET INCREASE	76,329,138
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NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR	<u>542,200,062</u>
-----------------------------------------------------------------	--------------------

NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR	<u><u>\$618,529,200</u></u>
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The accompanying notes are an integral part of this statement.

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INTRODUCTION

As required by Louisiana Revised Statutes (R.S.) 42:1301-1308, the Louisiana Public Employees Deferred Compensation Plan (the Plan) is supervised by the Louisiana Deferred Compensation Commission, a political subdivision of the State of Louisiana within the executive branch of government. The commission is composed of seven board members who serve without compensation. The Plan was established in accordance with Section 457 of the *Internal Revenue Code of 1986*, as amended, for the purpose of allowing officers, employees, and independent contractors of the state or any of its political subdivisions to voluntarily elect to contribute a portion of their compensation into the Plan for the purpose of deferring the payment of federal and state income taxes on the contributions until such time as they are withdrawn by the participants. At December 31, 2004, approximately 35,043 participants are in the Plan. The commission has no employees.

On December 18, 2001, the commission selected Great-West Life & Annuity Insurance Company as the plan administrator for a term of eight years beginning on January 1, 2002, with an option to extend the term through December 31, 2012.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and reporting principles.

B. REPORTING ENTITY

The State of Louisiana and any of its political subdivisions offer employees a deferred compensation plan created in accordance with Section 457 of the *Internal Revenue Code of 1986*. The assets of the plan are held in trust as described in IRC Section 457(g) for the exclusive benefit of the participants and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this plan, and the assets may not be diverted to any other use. The administrators are agents of the employer for purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with provisions of GASB Statement No. 32, plan balances and activities are not reflected in the State of Louisiana's or its political subdivisions' financial statements.

C. FUND ACCOUNTING

The Plan uses a pension trust fund to report on its net assets and changes in net assets. Pension trust funds are used to account for resources that are required to be held in trust

LOUISIANA PUBLIC EMPLOYEES DEFERRED COMPENSATION PLAN

for the members and beneficiaries of employee benefit plans. The pension trust fund accounts for contributions, investment income, and benefits distributed to participants.

D. BASIS OF ACCOUNTING

Basis of accounting refers to the timing of recognition of revenues and expenses in the accounts and reporting in the financial statements, regardless of the measurement focus applied. The transactions of the Plan are accounted for using the accrual basis of accounting and on a flow of economic resources measurement focus where the aim is to report all inflows, outflows, and balances affecting or reflecting an entity's net assets. Accordingly, revenue is recognized when earned and expenses are recognized when incurred. The Plan uses the following practices in recognizing revenues and expenses:

Contributions

Contributions are recognized in the period when the compensation used to calculate the contributions is reported on Internal Revenue Service Form W-2.

Investment Income

Investment income is accrued as earned, net of applicable investment management fees.

Plan Expenses

Investment management fees are netted daily from investment income and, therefore, are not a liability of the Plan at December 31, 2004.

Benefits Paid to Participants

Benefits are recorded when paid.

E. CASH AND INVESTMENTS

Cash includes demand deposits. Under state law, the Plan may deposit funds within a fiscal agent bank organized under the laws of the State of Louisiana, the laws of any other state in the Union, or the laws of the United States. The plan administrator is authorized to invest in various investment products, including mutual funds, United States Treasury bills or notes, life insurance, fixed or variable annuities, and other investments approved by the commission.

Investments in the fixed earnings and variable earnings options are valued at the fixed earnings rates or variable unit values as reported by the investment carriers, which approximates fair value. These values represent contributions received plus investment income earned to date less applicable charges and amounts withdrawn. Purchases and sales of fixed and variable earnings investments are recorded on the trade date.

NOTES TO THE FINANCIAL STATEMENTS

2. CASH

At December 31, 2004, the Plan has cash in demand deposits totaling \$293,525. The commission has directed that the deposits of the Plan in excess of federal insurance be secured by the pledge of securities owned by the fiscal agent banks. Deposit balances (bank balances) of \$1,179,908 at December 31, 2004, are fully secured by federal deposit insurance (GASB Category 1).

3. INVESTMENTS

Investments of \$616,982,152, as presented on Statement A, are valued at fair value. The Plan maintains investments with several product companies offering different types of investment options. The following itemizes the various product companies and the fair value of the investments at December 31, 2004:

<u>Product/Company Investment Options</u>	<u>Fair Value at December 31, 2004</u>
Investments not categorized:	
Great West Life & Annuity Insurance Company:	
Aggressive Profile - profile fund	\$9,565,051
American Century Investors Fund - mutual funds	79,764,071
AIM Real Estate Fund I	3,201,432
Ariel Appreciation Fund	987,533
Artisan Mid Cap Fund	7,467,950
BGI Russell 1000 Stock Index Fund - mutual fund	87,789,475
Conservative Profile - profile fund	4,464,766
Janus Funds - mutual funds	26,879,263
Legg Mason Value Trust Fixed Income - mutual fund	6,424,425
Maxim Series Fund - mutual funds	52,689,410
Oppenheimer Developing Market A Fund	3,652,529
Moderate Profile - profile fund	18,683,193
PIMCO Total Return Administrative Fund - mutual fund	4,995,438
RS Emerging Growth Fund - mutual fund	4,516,797
Touchstone Emerging Growth Fund	15,418,242
Total Great West Life & Annuity Insurance Company	<u>326,499,575</u>
Stable Asset Fund VII - United States government obligations (1)	290,420,303
Commercial Life Insurance Company - annuity	<u>62,274</u>
Total Investments	<u><u>\$616,982,152</u></u>

(1) Short-term investments of \$3.3 million were valued at amortized costs while the remaining balance of \$287,120,303 was valued by independent pricing services (fair value).

The Plan also has an investment in life insurance with Reliance Standard Life Insurance Company. This investment is valued at the cash surrender value of the life insurance policies, which is \$908,268 at December 31, 2004.

LOUISIANA PUBLIC EMPLOYEES DEFERRED COMPENSATION PLAN

4. PLAN RESTRICTIONS

The Plan is authorized under Section 457 of the Internal Revenue Code. Amounts deferred by participants are limited to \$13,000. Any amounts deferred are not subject to federal or state income tax withholding nor are they includible as gross income until actually paid or otherwise made available to the participant. At December 31, 2004, there are 173 state agencies, offices, boards, commissions, colleges, and universities participating in the Plan.

Participants of the Plan may withdraw funds from the Plan upon retirement as determined in accordance with retirement laws of the state, separation of service with the state, or financial hardship as approved by the Plan's hardship committee. In addition, beneficiaries of the participant may withdraw funds upon the death of the participant. Upon retirement, participants may select various benefit options, including lump sum payments and periodic payments for a designated term that is not in excess of the life expectancy of the participant or the life expectancy of the beneficiary. Participants may also withdraw funds, or be required to do so by the commission, if contributions have not been made in the past 24 months and if the total balance of the participant's account is less than \$5,000.

It is the opinion of the state's legal counsel, the Louisiana Attorney General, that the state has no liability for losses under the Plan but does have the duty of due care that would be required of an ordinary prudent investor. Of the \$618,529,200 in the Plan at December 31, 2004, a total of \$532,723,655 is applicable to the State of Louisiana, while the remaining \$85,805,545 represents the assets of other governmental jurisdictions participating in the Plan.

5. INVESTMENT INCOME

The annual rate of interest credited to participant accounts on investments with the various product companies for the year ended December 31, 2004, is as follows:

<u>Product/Company</u>	<u>Product</u>	<u>Annual Interest Rate</u>
Stable Value Fixed Income Fund	Fixed annuity:	
	January - March	3.90%
	April - June	3.90%
	July - September	3.90%
	October - December	3.90%

Investment income for the Stable Value Fixed Income Fund is reported at net, less the investment management fees disclosed in note 8.

NOTES TO THE FINANCIAL STATEMENTS

Investment income for the AIM Real Estate Fund I, American Century Investors Funds, Ariel Appreciation Fund, Artisan Mid Cap Fund, BGI Russell 1000 Stock Index Fund, Janus Funds, Legg Mason Value Trust Fixed Income Fund, Maxim Series Funds, Oppenheimer Developing Market A Fund, PIMCO Total Return Administrative Fund, RS Emerging Growth Fund, Touchstone Emerging Growth Fund, and the three portfolio funds (Aggressive, Conservative, and Moderate) are not expressed as a percentage because earnings result from gains or losses arising from investment transactions and fluctuations in fair value of the applicable investments.

6. ADMINISTRATIVE FEES

Beginning January 1, 2002, the contract between the commission and Great-West Life & Annuity Insurance Company provides for an administrative fee of .14% of assets in the Stable Value Fixed Income Fund and all Great-West Life and Annuity funds that are calculated and deducted daily on a pro rata basis. During the year ended December 31, 2004, net administrative fees of \$812,499 were paid to Great-West Life & Annuity Insurance Company.

7. RELATED PARTY TRANSACTIONS

In addition to acting in the capacity of plan administrator of the Louisiana Public Employees Deferred Compensation Plan, Great-West Life Assurance Company, through its wholly-owned subsidiary, Great-West Life & Annuity Insurance Company, offers fixed annuity and mutual fund products to Plan participants. At December 31, 2004, investments in these products represent 99.7% of total Plan assets. These investments are held in separate asset accounts, which are not subject to the general creditors of Great-West Life & Annuity Insurance Company.

8. STABLE ASSET FUND VII

Effective January 1, 2002, the commission entered into an agreement for the Great-West Life & Annuity Insurance Company to provide investment management services for the Stable Asset Fund VII. The contract provides for an annual fee of .34% of investments in the fund to be paid to the investment manager at the end of each quarter on a pro rata basis. These fees are in addition to the administrative fee and the fee for the commission activity fund as detailed in notes 6 and 10, respectively. During the year ended December 31, 2004, Great-West Life & Annuity Insurance Company charged fees of \$914,027 for investment management services.

At December 31, 2004, the participant account balances, which comprise the Stable Asset Fund VII, total \$284,635,914. The fair value of the net assets of the Stable Asset Fund VII as of December 31, 2004, is \$290,420,303. Participant distributions are based on the amount of their account balance, whereas distributions as a result of termination of the group annuity contract are based on net assets attributable to the contract and can be made to the Plan through transfer of the cash balance after sale of the fund's securities.

LOUISIANA PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN

9. LITIGATION

There is no pending litigation at December 31, 2004.

10. COMMISSION ACTIVITY FUND

The Louisiana Public Employees Deferred Compensation Commission maintains an account referred to as the Commission Activity Fund (CAF) that is included within the pension trust fund balances shown on Statement A. These funds are the property of the Plan and are used for expenses of the commission in discharge of its duties on behalf of the Plan. The CAF has a balance of \$1,171,475 at December 31, 2004. In addition to the fees detailed in notes 6 and 8, the commission determines the fees that are necessary to fund the CAF. For the fiscal year ending December 31, 2004, the commission set the fee to be deducted from Plan participants at .11%. The amount collected for the fourth quarter, \$162,352, is reported on Statement A as a receivable (due from plan administrator) at December 31, 2004. During the fiscal year ending December 31, 2004, the CAF collected fees of \$620,151. Commission expenses paid from these fees and investment income earned on the CAF balance for the year ended December 31, 2004, totaled \$158,887 and are reported as other administrative expenses on Statement B.

OTHER REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS

The following pages contain a report on internal control and on compliance with laws and regulations and other matters as required by *Government Auditing Standards*, issued by the Comptroller General of the United States. This report is based solely on the audit of the financial statements and includes, where appropriate, any reportable conditions and/or material weaknesses in internal control or compliance and other matters that would be material to the presented financial statements.

LOUISIANA PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN



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June 21, 2005

Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards*

**LOUISIANA PUBLIC EMPLOYEES
DEFERRED COMPENSATION COMMISSION
LOUISIANA PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN
STATE OF LOUISIANA
Baton Rouge, Louisiana**

We have audited the financial statements of the Louisiana Public Employees Deferred Compensation Plan, as of and for the year ended December 31, 2004, and have issued our report thereon dated June 21, 2005. We did not audit the financial statements of the Stable Asset Fund VII. Those financial statements were audited by other auditors whose report has been furnished to us. This report, insofar as it relates to that fund, is based solely on the report of other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the Stable Asset Fund VII were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Louisiana Public Employees Deferred Compensation Plan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

LOUISIANA PUBLIC EMPLOYEES DEFERRED COMPENSATION PLAN

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Louisiana Public Employees Deferred Compensation Plan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Plan and its management and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,



Steve J. Theriot, CPA
Legislative Auditor

CR:WDD:THC:dl

DEFCOMP04